

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

Winter 2021



### **Transportation Since COVID-19** **By Michael Siracuse, Fiscal Analyst**

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#### **Introduction**

In January 2020, the Department of Transportation (MDOT) was planning to begin a bonding program to address the deteriorating condition of the State's trunkline system. The Department received approval from the State Transportation Commission (STC) for a four-year, \$3.5 billion plan, with the first stage of bonding set to begin in March 2020. The additional spending power would mean, under a revised five-year plan published by MDOT at that time<sup>1</sup>, that an additional 44.5 miles of trunkline would be reconstructed or rehabilitated by the end of 2020, and that an additional 240.5 miles of trunkline would be reconstructed or rehabilitated by the end of 2024, nearly a 24% increase in road work when compared with the previous five-year plan.

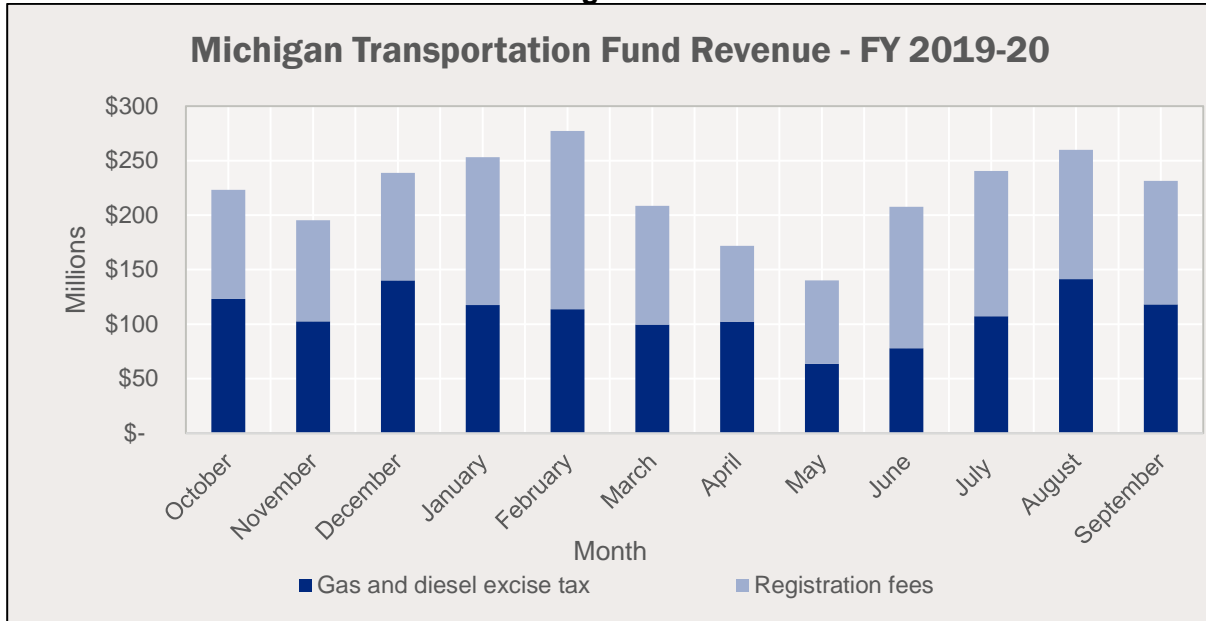
Additionally, at the beginning of 2020, State restricted revenue and Federal aid was projected to be holding steady. Gas tax and registration fees previously had been increased with the passage of a road funding package in 2015, which included an income tax earmark that had grown to \$600.0 million per year starting in fiscal year (FY) 2020-21. The new bonding plan would not provide additional aid to local governments, but it would give MDOT a sizable increase in spending power to fix the State's major roadways.

Then, in March 2020, the first cases of coronavirus disease 2019 (COVID-19) were detected and Michigan, which resulted in the shutdown of many business operations and saw the issuance of stay-at-home orders. In the time since, Michigan has seen State revenue and wages fluctuate, but not drop to initially projected levels, partly because of additional Federal aid. This document will discuss reported transportation revenue and data that are known. It also will identify data that are not known and highlight trends to watch for in the coming months and years as the State adjusts to operations during, and eventually after, the COVID-19 pandemic.

#### **State Transportation Revenue**

In 2015, Michigan raised the State's motor fuel excise tax and registration fees with a road funding package of 2015.<sup>2</sup> Beginning in January 2017, when the new taxes went into effect, revenue from the State's motor fuel excise taxes and registration fees, respectively, averaged \$119.3 million and \$108.1 million per month until the end of 2019. Those monthly averages decreased to \$101.5 million in motor fuel revenue per month and \$107.1 million in registration fee revenue per month between March and September 2020, the first months significantly affected by the COVID-19 pandemic. As shown in [Figure 1](#), the hardest hit months for Michigan Transportation Fund (MTF) revenue were March through June, during which motor fuel tax and registration collections were 81.6% of what they were in the previous year.

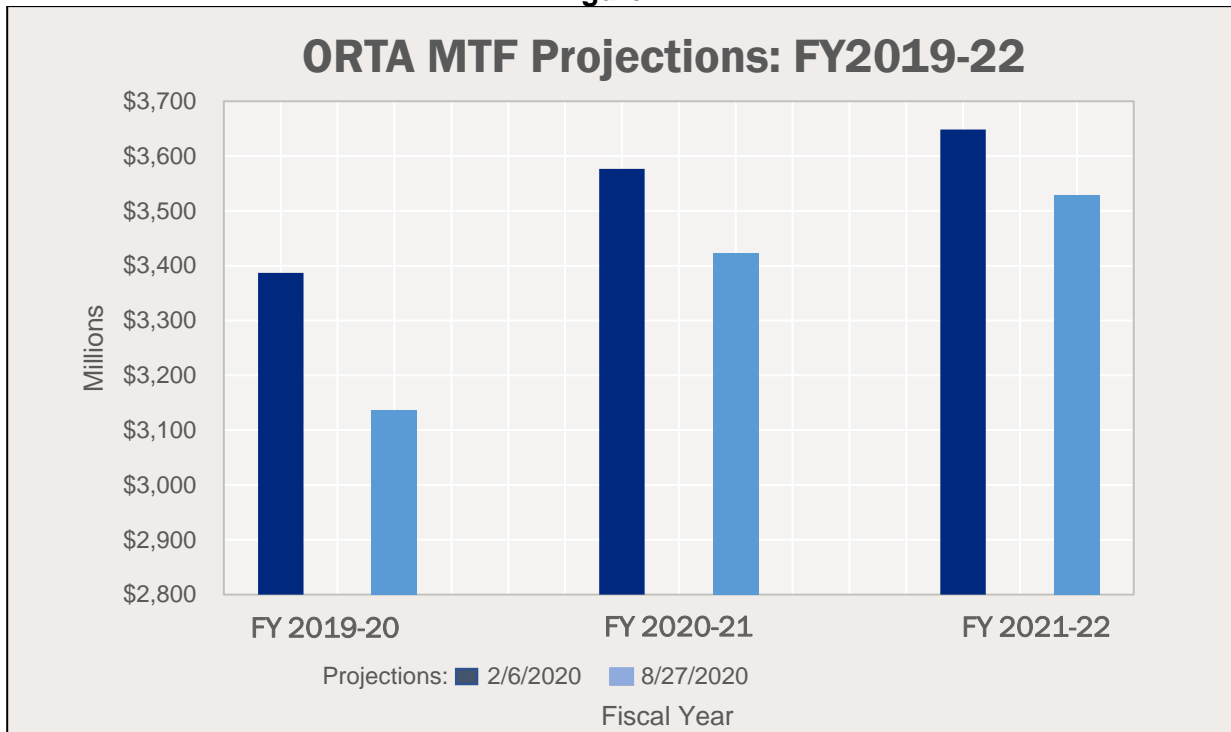
**Figure 1**



Despite the low registration numbers between March and May, by the end of the fiscal year total registration revenue nearly matched the previous year's collection amounts, down only 0.5%. This reflects the lockdown status of the State early in the pandemic, when Executive Orders 2020-47 and 2020-78 suspended specified registration renewal requirements between February 1, 2020 and June 30, 2020. Although the pandemic slowed overall registration collections in 2020, registration revenue was able to recover by the end of the fiscal year, with collections between June and September of 2020 exceeding those of the same period in 2019 by 13.9%. There was no similar recovery for motor fuel tax revenue. Monthly motor fuel tax revenue has recovered on a month-to-month basis, but the reduced revenue earlier in the year (particularly in May and June 2020) had a substantial negative impact on the total year's collections, which were down 9.2% from the previous fiscal year.

Another way to look at the impact of COVID-19 on the State's MTF revenue is to examine the projections from the State's Office of Revenue and Tax Analysis (ORTA). Figure 2, shows the total MTF projections as determined by ORTA on February 6, 2020, a month before the State's lockdown began, compared with ORTA projections made on August 27, 2020, five months into the pandemic. The August projections by ORTA for total FY 2019-20 MTF revenue were accurate, reflecting \$250.0 million less revenue than the February projections. Should the August 2020 projections for FY 2020-21 and FY 2021-22 also hit the mark, it will mean another \$260.0 million less MTF revenue than the projections made before the pandemic. The next ORTA projection likely will be published in February 2021.

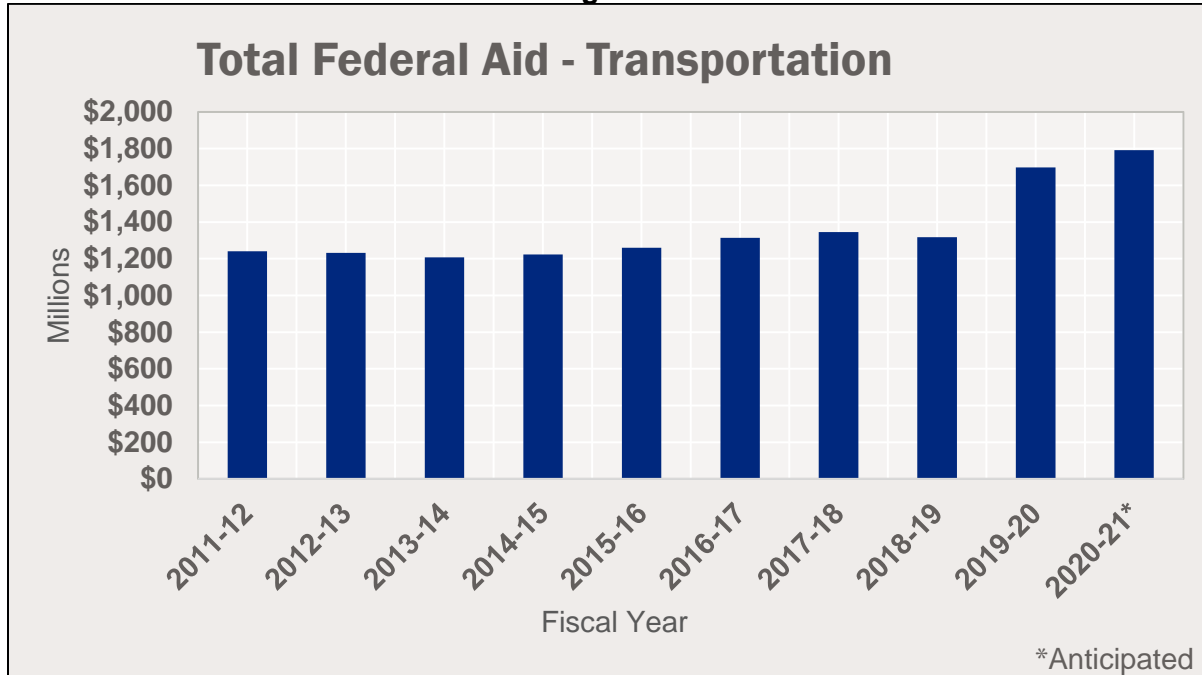
**Figure 2**



### Federal Aid

The COVID-19 pandemic has resulted in additional Federal aid for transportation programs in Michigan. [Figure 3](#) reflects the increases in Federal aid that flow through MDOT. As shown below, MDOT typically receives a little more than \$1.3 billion in annual Federal aid. The bulk of this aid, over \$1.0 billion, is set aside for Federal aid-eligible road and bridge work on the trunkline and local roadways. In 2020, however, the CARES Act provided an additional \$344.6 million in Federal aid in addition to the anticipated amounts originally appropriated, bringing the total Federal aid for FY 2019-20 to \$1.7 billion.<sup>3</sup> Although the CARES Act contributed to the overall amount of Federal aid within the State's transportation budget, none of the additional aid for FY 2019-20 was eligible for State or local road and bridge construction. Instead, most additional Federal aid went to operating costs for airports and transit agencies within the State as a direct response to revenue shortfalls caused by the COVID-19 pandemic.

**Figure 3**



Fiscal year 2020-21 already has seen the passage of another Federal stimulus package, with HR 133, Consolidated Appropriations Act, 2021. The amount of transportation aid set aside for Michigan with this package is expected to be about \$450.0 million; this time, Federal aid has been included for road and bridge projects. Just over \$260.0 million of the total transportation Federal aid amount for Michigan will be made available through the Federal Surface Transportation Block Grant program. The money will be provided at a 100% Federal match, meaning MDOT will not have come up with 10% or 20% of matching State funds for each project to use it. It is not known how much of this \$260.0 million will be spent on local projects.<sup>4</sup>

### **Bonding**

In the State of the State address in January 2020, Governor Whitmer described a bonding plan that would take advantage of historically low interest rates to power MDOT through a massive road construction and repair program. Forty-nine new road and bridge projects would be added to the five-year plan with bond proceeds, and over 70 planned projects would be accelerated, with existing MTF revenue freed up by the additional bonds.<sup>5</sup> Department testimony before the STC (which needed to give its consent to the plan) and the House and Senate appropriations subcommittees described a plan to borrow hundreds of millions of dollars for four consecutive years, totaling \$3.5 billion in new bond debt by the end of FY 2022-23. At that time, January 31, 2020, MDOT indicated that the first round of bonding would be finalized by late-April 2020.

Instead, the first round of bonds, at \$800.0 million were not issued until September 2020, over five months later than originally anticipated and after many of the best months of road construction weather had passed. By the end of 2020, it was unclear how many of the projects expected to be funded with those bond proceeds were actually completed as planned in MDOT's original presentation to the STC when it sought approval for the program. The Department is on record stating to the *Engineering News-Record* that some projects may have to be pushed into later years.<sup>6</sup> A new, revised plan was submitted to the STC on January 21, 2021, but it did not indicate whether any projects planned for 2020 were delayed.<sup>7</sup>

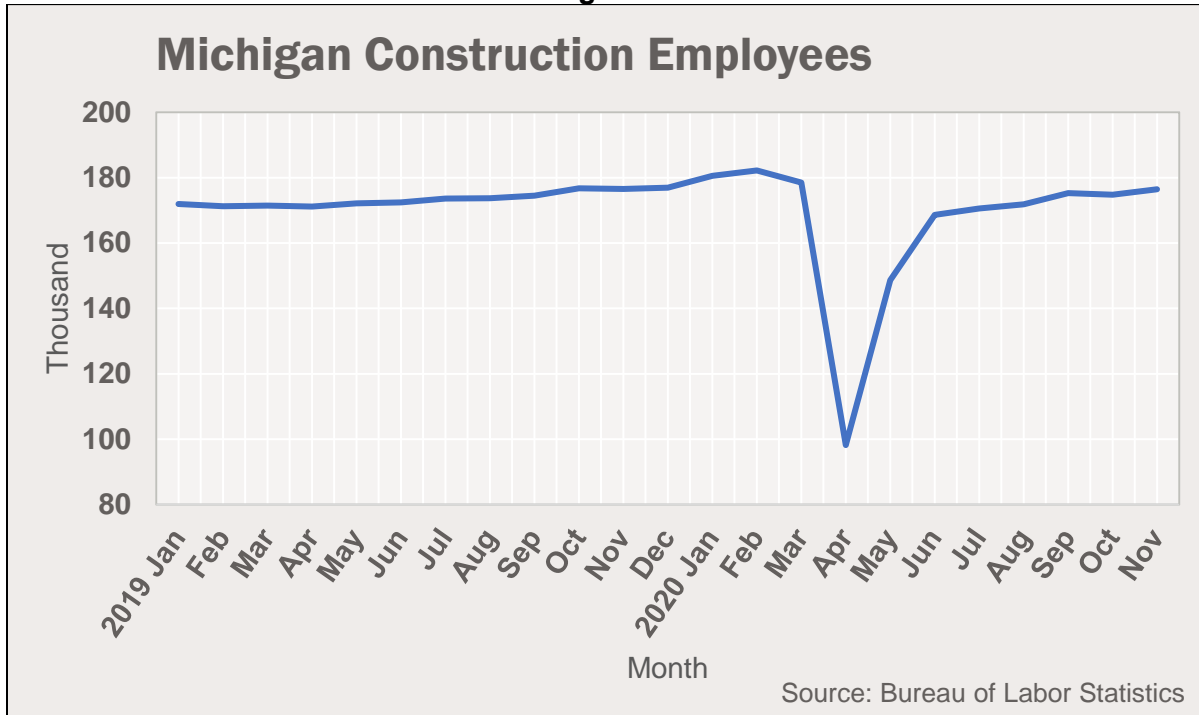
Until recently, it was not clear how much of the \$800.0 million in bonds received by the Department in FY 2019-20 had been spent. Bond proceeds are not classified by MDOT as originating from a fund source, such as the MTF or the General Fund, which means the balance of the remaining bonds issued this past September is not searchable via the State's accounting systems. On February 2, 2021, the Department, testifying before the Senate Appropriations Subcommittee on Transportation, provided more detail on the bonding program. With a yield rate ranging from .13% on \$5.0 million in bonds in 2020 to 1.87% on \$25.3 million in bonds due in 2041, the Department was able to generate \$1.1 billion in bond proceeds on the \$800.0 million in bond principle. Of that \$1.1 billion in bond proceeds, only \$49 million has been spent on a single road project: the I-496 loop in Lansing. Approximately \$422 million was let in 2020, which will allow the Department to begin construction on 8 projects in 2021. The Department has plans to let an additional 18 projects at \$1.4 billion in 2021. As communicated by the Department at the February 2 subcommittee meeting, these 26 projects encompass roughly half of all road projects in the Rebuilding Michigan plan.

### **Labor and Materials Costs**

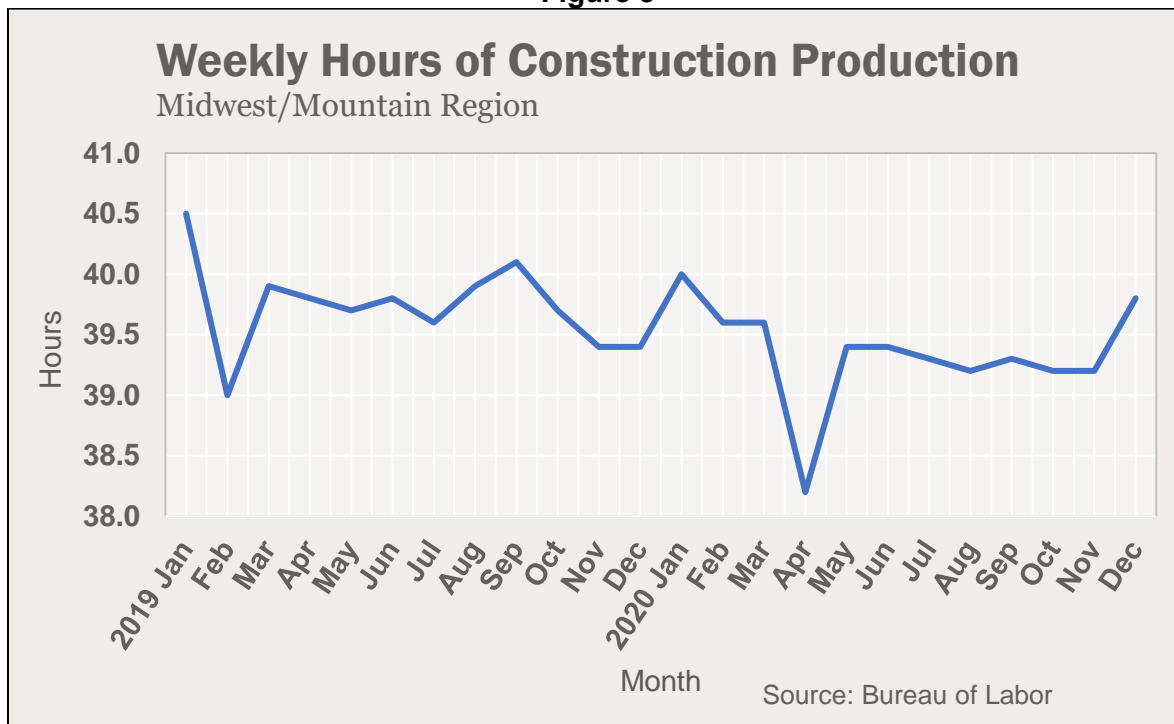
Not enough is known about how the COVID-19 pandemic has affected labor, including road construction labor. In March 2020, State and local road construction and repair was met with confusion and delays in order to resolve a question as to whether construction workers, or specific road projects, were considered "essential".<sup>8</sup> In addition, little is known about the pandemic's impact on the supply and demand of heavy construction materials. Some 2020 data are available, but even the information contained in Figures 3 through 7, from the Federal Bureau of Labor Statistics (BLS) comes with a caveat: much of the data since the beginning of the pandemic had to be collected over the phone or online, not in person, as is typically preferred by BLS.<sup>9</sup> Additionally, preferred information would include the per-ton costs for hot mix asphalt (commonly referred to as HMA) and concrete, two of the most voluminous construction materials that go into road construction. These data are not currently available.

What is available from BLS, in the order charted below, are the number of construction employees in Michigan (Figure 3), and, for the Midwest, the average weekly hours of construction production (Figure 4), the price index of concrete ingredients (Figure 5), and the price index of construction sand, gravel, and crushed stone (Figure 6).

**Figure 4**

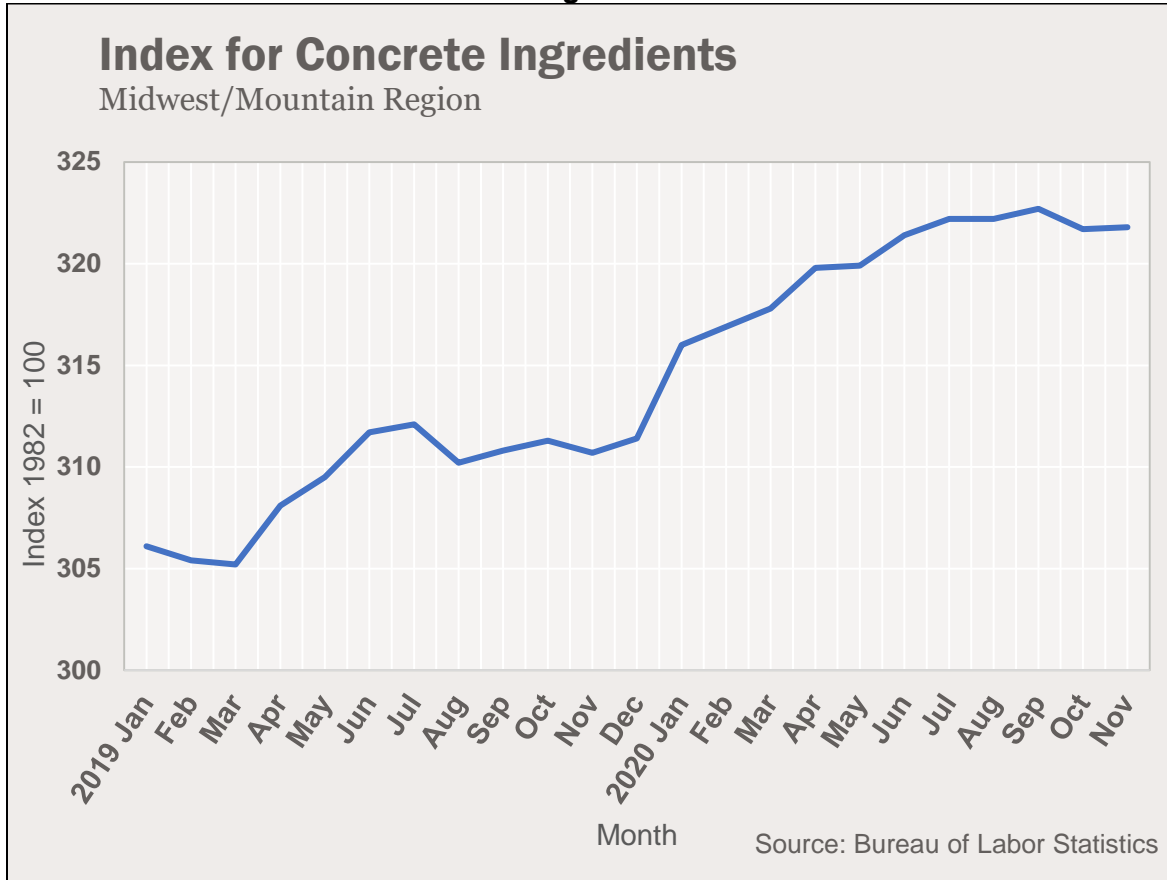


**Figure 5**

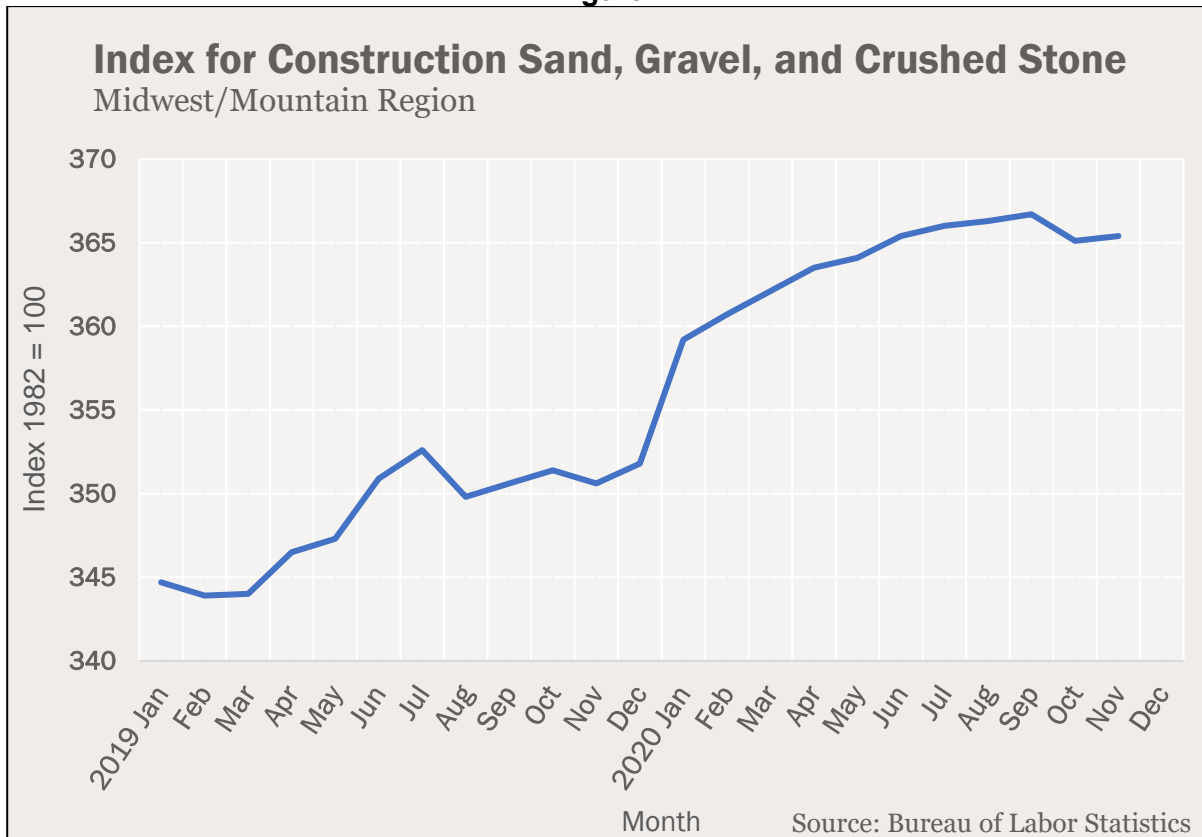


The BLS data in Figures 4 and 5 show that construction employment and production took a short dive during in Spring 2020, but that those construction barometers eventually recovered to levels indicative of the previous calendar year. At a time when MDOT had previously anticipated construction projects ramping up, funded with new bond money, there was a sharp, but short delay in those projects, and no bond money to fund them.

**Figure 6**



**Figure 7**



Regarding materials costs, from what data are available, there are indications of an economic event that was sufficient to slow overall growth in costs. Prices for heavy construction materials typically rise and fall with the demand of the seasonal work schedule. Prices rise in the spring, then fall as the construction season ends. Materials costs for heavy construction, like roadways, have, overall, been rising year to year for decades; the summer rise in materials prices was not as steep during 2020, which could be attributable to decreased demand as a result of project delays associated with the pandemic.

## Conclusion

The Michigan Department of Transportation, not dissimilar to other State departments, had to manage a large amount of economic uncertainty throughout most of 2020. Revenue dropped sharply, but recovered by the end of the year, and Federal aid has helped mitigate any fiscal year-end shortages. The pandemic managed to pause road construction and repair briefly in the spring of 2020 and to slow growth in the heavy construction industry in 2020 and beyond; however, growth is expected to continue, especially as MDOT has more money to spend on road construction and repair over the next four years. The Department's new bonding program has seen some delays, but it will likely begin construction on 26 new road projects funded with bond proceeds over the next two years.



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<sup>1</sup> Michigan Department of Transportation, *Rebuilding Michigan: 2020-2024 Revised Five-Year Transportation Program Project List*, January 30, 2020.

<sup>2</sup> See Public Acts 174 through 180 of 2015.

<sup>3</sup> Public Law 116-136 (2020).

<sup>4</sup> See also "Federal Stimulus Act in Response to the Coronavirus Pandemic: HR 133", Senate Fiscal Agency Memorandum, 1-25-21.

<sup>5</sup> Mester, Laura J., "Rebuilding Michigan", Presentation to State Transportation Commission, 1-30-2020.

<sup>6</sup> See Parson, Jim, *et al.*, "Transportation Officials Make the Best of a Bumpy 2020", *Engineering News-Record*, January 6, 2021.

<sup>7</sup> Michigan Department of Transportation, *2021-2025 Five-Year Transportation Program: Volume XXII*, January 21, 2021.

<sup>8</sup> "State Road Projects Could Stop If COVID-19 Concerns Cited", *Michigan Information & Research Service, Inc*, March 31, 2020, [www.mirsnews.com](http://www.mirsnews.com). Retrieved on 1-13-2021.

<sup>9</sup> "Coronavirus (COVID-19) Pandemic Impact on December 2020 Consumer Price Index Data", [www.bls.gov/covid19](http://www.bls.gov/covid19). Retrieved on 1-13-2021.